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The Honorable William P. Clark
Assistant to the President for
National Security Affairs

SUBJECT: Soviet Gas Turbines

1. The front-page story in the Washington Post this morning indicates that the present decision to maintain sanctions has caused the Soviets to undertake a program to build their own turbines and that this will deprive Western turbine manufacturers of a large amount of business over the next several years.
2. The truth is that the Soviets, in 1980, launched a major project to expand production of turbines. Their announcement showed that making their own turbines will cause resources and expertise to be taken away from the shipbuilding and aircraft industries.
3. A recent edition of Pravda announced that the testing of the new turbine in the Soviet Union has just begun. Our experts say that the program has run into technical difficulties but is nonetheless going forward.
4. Also according to our experts, the Russians have never seriously considered purchase of 130 compressor stations for domestic pipelines from the Europeans. European executives should not have had any reason to expect this business.
5. This suggests that the story in today's Post is designed to put pressure on the US by exaggerating the damage our policies will cause the European business community.

15/
William J. Casey

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SECRET

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Hope for Massive Deal

By Dusko Doder

Washington Post Foreign Service

MOSCOW, June 29.—The Soviet Union has decided to produce its own large compressor stations for five domestic gas pipelines scheduled to be built this decade, thus ending the expectations of Western European companies for more than \$10 billion in contracts, according to Western businessmen here.

The disclosure suggested that the Reagan administration's decision to ban Moscow's purchase of U.S. oil and gas equipment and similar machinery made under license in Eu-

rope will have an impact well beyond the controversial pipeline being planned to carry natural gas to the West. But it was unclear here whether the Soviets were developing their own turbine in an effort to pressure West European governments to seek a reversal of Reagan's embargo.

The Siberia-Western Europe pipeline and the five companion pipelines serving Western sections of European Russia and Eastern Europe are Moscow's key energy project of the decade. Apart from securing steady sources of hard currency—the stated objective of the export pipe-

—the five other trunk lines are designed to increase the use of plentiful natural gas in the Soviet Union to offset rising oil consumption. The reported Soviet decision to produce new large turbines does not affect the contracts signed by European firms participating in the construction of the 3,500-mile pipeline to the West. The Soviets, who expect to make roughly \$8 billion annually from these sales to Western Europe, insist that the Europeans fulfill their obligation. According to Western businessmen here, their firms have con-

tracted to build 42 compressor stations on the export pipeline and were expecting to supply equipment for 130 compressor stations on the five domestic pipelines.

But a Western European businessman with long experience in pipeline equipment exports to Moscow said he was advised that the Soviet government would build the large 25-megawatt turbines for pipeline stations such as the LMZ plant in Leningrad.

This meant, he said, that the expected Soviet contracts for the con-

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struction of 130 compressor stations for the five trunk pipelines would not materialize.

The Reagan administration's sanctions primarily affect European companies manufacturing gas turbine blades under license to General Electric. The blades are seen as essential for compressing gas at stations along the pipeline. The largest Soviet turbines currently operating are at half the capacity of the GE 25-megawatt model.

The firms affected are AEG of West Germany, the Italian state-owned Nuovo Pignone, Alsthom-Atlantique of France and John Brown and Co., a British engineering firm.

Business sources here said that the Soviets' decision to produce a new generation of turbines was taken recently. Two and possibly four prototype models are already being tested in Leningrad.

The government news agency Tass said recently that the Soviet 25-megawatt turbines developed by academician Igor Glebov are 1.5 times more efficient than the GE turbine.

Western businessmen here, who would not be identified for fear of harming their companies' interests in the United States, have been angry at Reagan's decision to force sanctions retroactively. Some have called Reagan's move "downright unethical" and have voiced fears that the Americans would "ruin our chances" in the Soviet market for many years.

The Soviets are reported to have warned the Western companies that if they fail to meet their contractual obligations on the export pipeline, they would have to pay enormous penalties.

A senior Soviet official told Western reporters last week that the export pipeline would be completed on schedule despite the American action. Observers here believed that the Soviets would live up to their word because this has become a matter of prestige as well as of hard currency. To do so, however, the Soviets may have to delay their other projects, including possibly the construction of the domestic pipelines, and may dis-

While other firms supplying U.S.-designed turbines rely on American delivery of rotors, the French firm of Alsthom Atlantique can make it itself under license. The company could theoretically supply Soviet needs, but it would have to build a new plant.

Business sources here said the Soviets and West Europeans could possibly jointly produce the turbines. Such a move would depend on political decisions here and in Western Europe.

But as one businessman put it, at the moment "we are being told clearly to forget it." The Soviets appear intent to cut Western firms out of energy projects and develop Soviet technology, he added.

In a perhaps related move, Western diplomatic sources reported tonight that Moscow has told several Western European governments that it plans to reduce telephone links with Western Europe beginning Thursday.

The move could affect business connections between the Soviet Union and the West. There was also speculation here that it would reduce the ability of Soviet emigres in the West to contact their relatives and friends here as well as the ability of Soviet citizens to make overseas calls.

According to diplomats, lines with West Germany would be reduced from 42 to 16 and lines with Britain from 46 to 14. Also to be cut are lines to Austria, Italy, France, Belgium, the Netherlands and Scandinavia. It was not immediately clear whether lines to the United States are going to be affected by cuts.